

EXECUTIVE SECRETARIAT
Routing Slip

*Memo
Chano*

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		✓		
2	DDCI				
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7	DDO				
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12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
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SUSPENSE _____ Date _____

Remarks:

Executive Secretary
10/6/82
Date

Executive Registry

82-12351

6 October 1982

MEMORANDUM FOR: National Intelligence Officer for Economics
FROM: Director of Central Intelligence
SUBJECT: French Financial Deal

Before I go to an NSC meeting at 4:00 today, I would like to have the details on the \$4 billion French financial deal in this article. The article indicates that a number of US, Canadian and West German banks agreed to underwrite \$100 million. Where is the rest coming from? I was told [] that Libyan accounts had taken up most of the \$4 billion commitment. Let me know what information is available on this and how we can get fuller and more confirmed information.

25X1


William J. Casey

Attachment

100-443836
100-443836

SECRET

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4 October 1982

Banks Object to Wording of French Loan Accord

By Carl Gewirtz

International Herald Tribune

PARIS — A number of U.S., Canadian and West German banks that have agreed in principle to underwrite \$100 million of France's \$4-billion Eurocredit are objecting to the wording of the loan agreement proposed by the French Treasury.

"There's a lot of arguing about technicalities," acknowledged a government official, who dis-

SYNDICATED LOANS

missed rumblings about a mass pullout as a mere bargaining chip by bankers trying to force acceptance of their conditions.

But a number of bankers insist that they will have to reassess their underwriting commitments if the government fails to give them the wording they want. There is no way to determine whether bankers are merely rattling sabers or really would pull out of the loan at the last minute and risk the lasting hostility of the government.

What irks bankers is not a fear of imminent financial crisis in France but rather the precedent it could set for other sovereign borrowers to seek loosely worded loan agreements.

Not Necessarily a Threat

The dispute does not necessarily threaten the French loan. The 16 banks in this group are not unanimous in warning they would feel forced to withdraw if their demands are not met. Even if all did pull out, the loan could still comfortably go forward, as 55 banks have agreed to underwrite it. These commitments total \$5.7 billion.

The government, which wants the money to bolster its reserves to defend the franc on the foreign exchange market, has chosen to keep the loan's size unchanged — meaning that the oversubscription would be used to reduce the amount of the loan each bank takes.

If some banks drop out, the oversubscription could be used to fill the gap.

The dispute concerns clauses that bankers consider standard in Euromarket loan agreements but that are not contained in the draft French document. The French note that the contested clauses were not contained in the previous Euromarket loan for France, syndicated in 1974, and were also absent in the French guarantee for a \$275-million loan syndicated in April for Caisse Nationale des Télécommunications.

The French also maintain that while the clauses serve a valid function in protecting lenders in a loan signed by a corporate entity, they make no sense in a loan for a sovereign state — a point some bankers challenge.

Missing Clauses

The missing clauses are the *pari passu* negative pledge clause and the cross default clause. The first is a statement that the loan shall not be subordinate to any other loan in terms of payment or security and that no future loan will be better secured unless such security is extended to this loan. This means, for example, that France could not raise a loan using its gold hoard as collateral unless it backed the other loan with gold.

The cross default clause would make this loan immediately payable if France defaulted on any other loan or declared a moratorium on payments of interest and principal. What worries bankers is that without such a clause France could declare a moratorium on loan payments and still be able to draw on the loan.

There is also no automatic default clause in the proposed language. If France failed to meet its payments schedule, the agent bank, 15 days later, would be authorized to poll the syndicate for a declaration of default. Two-thirds of the lenders would have to agree to call a default. Foreign bankers say they want this reduced to 50 percent, as the nine nationalized French banks participating in the loan equal half the number needed to block such a declaration under the two-thirds rule.

Also missing from the proposed contract is the waiver of sovereign immunity whereby the government declares its willingness to be sued in court for nonperformance. This currently appears to be the only issue on which France is willing to give ground, and the clause is expected to be included in the loan contract.

Comparisons With 1974 Rejected

Bankers reject comparisons with the 1974 loan contract. Just as the financial terms are different, they say, so should the legal terms differ. "The market has evolved since then, the circumstances are no longer the same," says one banker. In addition, he notes, this loan is considerably larger than the \$1.5 billion raised in 1974. More important, the new loan will used — the government is committed to drawing at least one-third of it — whereas the 1974 credit was not.

Bankers also reject the government's comparison with the documentation for CNT because of the much smaller size of that loan. They also insist that just as France is attempting to use that example as a justification for its present stand, other governments will use the French example to exact similar concessions if France gets its way.

Elsewhere, Indonesia has mandated four banks to arrange a \$250-million, 10-year loan at a thin $\frac{3}{4}$ point over the London interbank offered rate. The margin and maturity are identical to earlier loans, but the amount is smaller — the only concession Indonesia has had to make to the change in conditions since it last tapped the market, in March.

Managers dismiss reports that the terms represent a commitment they had made before lending conditions generally began to tighten. Explaining why Indonesia is paying a margin of $\frac{3}{4}$ percent, compared with the $\frac{1}{2}$ percent demanded of France, one manager says: "We did it with our eyes open. Call it a statement of our belief where the market is for Indonesia and a reflection of our ongoing relations with the country."

No Wide Syndication

Whatever more lucrative business the managers hope to win in the future, they will not attempt a wide syndication. Japanese banks, with Bank of Tokyo acting as agent for the loan, will take 50 per-

cent of the loan. The remainder will be offered to a small group.

In addition, a group of Mideast banks is reported to be planning to underwrite \$75 million of floating rate notes for Indonesia.

The Korean Development Bank, seeking \$500 million, is said to have postponed plans to tap the market until the Indonesian loan is completed in the hope that a successful syndication will enable it to bargain for better terms.

Thailand, which last March paid a split $\frac{3}{8}$ - $\frac{1}{2}$ point over Libor for 10-year money, is reported to be sounding out the market for terms on a new \$200-million loan.

In Latin America, bankers say they are discussing the possibility of raising a jumbo short-term loan for Argentina but that there are formidable conditions to overcome. Among these are an Argentine settlement of its arrears with British banks and an agreement to borrow from the International Monetary Fund, which implies agreement to meet IMF conditions.

Bankers say they are studying Venezuela's request to convert \$3.8 billion of short-term state agency debt into longer-term loans with maturities of three, five or seven years. Venezuela is also offering to guarantee these longer-term loans. While terms have not yet been spelled out, bankers believe Venezuela will have to pay a margin of 1 point over Libor for three-year money, $1\frac{1}{4}$ for five years and $1\frac{1}{2}$ for seven years.

Chile's copper corporation Codelco has begun negotiations for a "club" loan of \$300 million, bankers report. Meanwhile, an IMF mission arrived in Chile last week to negotiate a loan of \$860 million, including a standby credit of \$450 million.

Hungary is reported to be well on the track to arranging a loan agreement with the IMF, and in the interim has asked the Bank for International Settlements in Basel to provide a further \$300 million in short-term financing. The request is likely to be granted.

Yugoslavia's request — \$500 million for three years — is for longer than the BIS usually provides, but central bankers note there is strong support and sympathy for Yugoslavia.

Zaire is again moving to the limelight as a trouble spot. The IMF suspended its loan facility in July, and Zaire's advisers — Lehman Brothers Kuhn Loeb, Lazard Frères and S.G. Warburg — say they can serve no useful purpose in the present circumstances "until certain decisions are taken." Their contract expires in July.

Zaire's major bank creditors met in London Friday to discuss the situation and have dispatched a three-man delegation to Kinshasa. The banks received only \$10 million of the \$44.5 million that was due on April 1, and only \$3 million of the \$31 million that was due on Oct. 1. All of the October payment and about four-fifths of the April payment were interest charges.

Banks are usually willing to roll over capital repayments so long as interest payments are kept current. Once the interest is not paid, the banks must admit the debt is bad and set aside provisions for it.

Meanwhile, a report circulating in Belgium, written by a former Bundesbank official who served as adviser to Zaire's central bank, is causing a storm with its charges of rampant corruption (allegedly involving some prominent Belgians) among Zaire's ruling class and a complete disregard for repaying external debt of nearly \$5 billion. An annex to the report, written by a former Zaire government official living in exile, alleges that President Mobutu Sese Seko's personal fortune almost equals the foreign debt.